

## Message Text

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ORIGIN EB-08

INFO OCT-01 EUR-12 EA-10 NEA-10 ISO-00 TRSE-00 AID-05  
SP-02 ICA-11 NSC-05 SS-15 STR-07 OMB-01 CEA-01  
L-03 CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02  
OPIC-03 LAB-04 SIL-01 PA-01 SIG-03 /118 R

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FM SECSTATE WASHDC  
TO AMEMBASSY PARIS PRIORITY  
AMEMBASSY BONN PRIORITY  
AMEMBASSY TOKYO PRIORITY  
AMEMBASSY LONDON PRIORITY  
AMEMBASSY OTTAWA PRIORITY  
AMEMBASSY THE HAGUE PRIORITY  
AMEMBASSY BRUSSELS PRIORITY  
AMEMBASSY ROME PRIORITY  
INFO AMEMBASSY ISLAMABAD PRIORITY  
AMEMBASSY TEHRAN PRIORITY

C O N F I D E N T I A L STATE 109392

E.O. 11652: GDS

TAGS: EFIN, PK

SUBJECT: PAKISTAN REQUEST FOR DEBT RENEGOTIATION

REF: PARIS 36830

1. SUMMARY: THE IBRD WILL USE THE OPPORTUNITY OF  
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THE NEPAL AND SRI LANKA CONSULTATIVE GROUPS IN PARIS  
TO SOUND OUT HEADS OF DELEGATIONS ON MAY 4 ON THEIR  
VIEWS ON A REQUEST BY PAKISTAN FOR DEBT RENEGOTIATION.  
USG VIEWS REGARDING PAKISTANI REQUEST ARE CONTAINED  
BELOW. REQUEST YOU APPROACH APPROPRIATE HOST COUNTRY  
OFFICIALS DEALING WITH DEBT RENEGOTIATION ISSUES TO  
CONFIDENTIALLY CONVEY USG POSITION AND SOLICIT LIKELY  
HOST COUNTRY ATTITUDES AT MAY 4 MEETING. WE HAVE NOT  
INFORMED THE GOP OF OUR POSITION AND WILL NOT DO SO  
UNTIL AFTER CONSULTING WITH OTHER CREDITORS.

END SUMMARY.

2. LAST DECEMBER, THE GOP REQUESTED THE CREDITOR COUNTRIES OF THE PAKISTAN AID CONSORTIUM TO PROVIDE DEBT RELIEF FOR A MAJOR PORTION OF THE DEBT SERVICE FALLING DUE DURING THE PERIOD OF THEIR NEXT FIVE YEAR PLAN (SEE REFTEL). SUCH RELIEF WOULD BEGIN AFTER EXPIRATION OF THE PRESENT FOUR-YEAR DEBT RELIEF AGREEMENT

ON JUNE 30, 1978. MORE DETAILS ON THE PAKISTAN REQUEST MAY BE FORTHCOMING AT AN ISLAMABAD MEETING OF DONOR COUNTRY AMBASSADORS TENTATIVELY SCHEDULED BY THE GOP FOR APRIL 29. PAKISTAN HAS REQUESTED THAT DEBT RELIEF BE CONSIDERED AT THE JUNE 1-2 MEETING OF THE PAKISTAN CONSORTIUM. THE IBRD HAS ADVISED US THAT IT WILL USE OPPORTUNITY IN PARIS ON MAY 4 (BETWEEN MEETINGS OF THE NEPAL AND SRI LANKA AID GROUPS) TO SOUND OUT HEADS OF DELEGATION FOR THEIR VIEWS ON THE PAKISTANI REQUEST.

3. AFTER CAREFULLY REVIEWING AVAILABLE DATA, WE HAVE CONCLUDED THAT PAKISTAN'S PAYMENTS POSITION DOES NOT WARRANT DEBT RELIEF AT THIS TIME. AT THE SAME TIME WE RECOGNIZE THAT THERE ARE STILL UNCERTAINTIES  
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REGARDING PAKISTAN'S FY 1978-79 (BEGINNING JULY 1) BALANCE OF PAYMENTS POSITION. WE THEREFORE WOULD BE WILLING TO REEXAMINE THE MERITS OF PAKISTAN'S CASE FOR DEBT RELIEF AT A LATER DATE WHEN WE HAVE A FIRMER FIX ON PAKISTAN'S FY 1979 PAYMENTS POSITION, AND ON ITS FUTURE BUDGET, DEVELOPMENT PLANS, HOPEFULLY A NEW IMF STANDBY AGREEMENT, AND OVERALL ECONOMIC POLICY INTENTIONS. THIS ADDITIONAL INFORMATION WOULD PRESUMABLY BE AVAILABLE LATER THIS YEAR.

4. OUR POSITION HAS BEEN DETERMINED WITH A NUMBER OF CONSIDERATIONS IN MIND:

(A) GOP CAPACITY TO MEET ITS DEBT REPAYMENTS AT LEAST IN THE SHORT-TERM APPEARS BETTER, LARGELY DUE TO INCREASES IN OVERSEAS REMITTANCES;

(B) THERE IS STILL CONSIDERABLE UNCERTAINTY OVER THE LEVEL OF PFY 1979 WORKER'S REMITTANCES. INDICATIONS ARE THAT THE 1.1 BILLION DOLLARS OFFICIAL PAKISTAN PROJECTION MAY BE TOO LOW, AND THAT A RANGE OF 1.2-1.5 BILLION DOLLARS MIGHT BE EQUALLY PLAUSIBLE. ACTUAL LEVEL OF REMITTANCES IS OBVIOUSLY AN IMPORTANT FACTOR IN DETERMINING PAKISTAN'S ABILITY TO SERVICE DEBT;

(C) THERE ARE ALSO UNCERTAINTIES REGARDING PAKISTAN'S POLICY INTENTIONS AND THE DIRECTION OF ITS DEVELOPMENT

POLICY. THE PROMISED REVISED 5-YEAR PLAN IS NOT YET AVAILABLE. ALTHOUGH OLD ONE EXPIRED IN MARCH, NO NEW STANDBY AGREEMENT WITH IMF BEEN REACHED; AND

(D) WHILE PAKISTAN NOW HAS LITTLE DIFFICULTY MEETING REPAYMENT OF CONSORTIUM DEBT, WE NOTE THAT THIS IS FOURTH TIME IN SIX YEARS THAT WE HAVE BEEN ASKED TO RESCHEDULE GOP DEBT AND IT IS OBVIOUS THAT A LONGER RANGE EXAMINATION OF COUNTRY'S DEBT BALANCE OF PAYMENTS  
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SITUATION IS REQUIRED. INDEED, THE IBRD, IMF AND DONORS HAVE ALL AGREED THAT PAKISTAN FACES A SITUATION WHERE SEVERAL YEARS OF SERIOUS REFORM WILL BE NECESSARY TO PUT THE ECONOMY ON A STABLE FOOTING AND AVOID FUTURE DEBT PROBLEMS. THE PAKISTANIS THEMSELVES WILL HAVE TO TAKE THE LEAD IN SUCH ECONOMIC REFORM AND, WHILE DONOR/ CREDITOR COUNTRIES WILL CLEARLY HAVE A SUPPLEMENTARY ROLE TO PLAY, THE CASE HAS NOT YET BEEN MADE THAT DEBT RELIEF IS NOW REQUIRED TO AVOID ACUTE SERVICING DIFFICULTIES.

5. SINCE USG WOULD NOT BE ABLE TO AGREE TO DEBT RESCHEDULING AT JUNE 1-2 MEETING, WE WOULD OBVIOUSLY HOPE THAT CONSORTIUM CREDITORS WOULD AGREE THAT PAKISTAN REQUEST CAN BEST BE CONSIDERED LATER ON THIS YEAR (SAY, IN DECEMBER) WHEN THERE WILL BE MORE DETAILED INFORMATION ON GOP ECONOMIC POLICY INTENTIONS AND A FIRMER FIX ON PFY 1979 PAYMENTS POSITION. A CREDITOR CONSENSUS TO DEFER EXAMINATION OF THE MERITS OF PAKISTAN'S CASE UNTIL LATER IN THE YEAR, WOULD NOT OF COURSE, PRECLUDE PAKISTAN, THE IBRD, OR INDIVIDUAL CREDITORS FROM DISCUSSING THE ISSUE IN JUNE.

6. IN YOUR DISCUSSIONS WITH HOST GOVERNMENT OFFICIALS, YOU SHOULD EXPRESS HOPE THAT IT MIGHT JOIN IN A CONSENSUS FOR DEFERRAL, BUT EMPHASIZE THAT THE USG IN NO WAY WISHES TO DISCOURAGE THOSE CREDITORS WHO BELIEVE IT APPROPRIATE TO GRANT DEBT RELIEF AT THIS TIME. YOU SHOULD BEAR IN MIND THAT, UNLIKE THE U.S., MANY CREDITORS USE DEBT RELIEF AS PART OF THEIR ALREADY BUDGETED DEVELOPMENT ASSISTANT PROGRAM.

7. THE FOLLOWING SUMMARY OF PAKISTAN'S CURRENT  
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ECONOMIC SITUATION IS PROVIDED TO DRAW ON, IF YOU WISH, IN YOUR CONVERSATIONS WITH HOST GOVERNMENT OFFICIALS:

PAKISTAN'S BALANCE OF PAYMENTS DIFFICULTIES EASED

SIGNIFICANTLY DURING THE LAST SIX MONTHS, LARGELY AS THE RESULT OF SHARPLY INCREASED WORKER REMITTANCES. THESE ARE NOW RUNNING ABOUT 100 MILLION DOLLARS MONTHLY, AND ARE PROJECTED TO TOTAL ABOUT 1,000 MILLION DOLLARS IN THE PAKISTAN FISCAL YEAR (PFY) 1978 ENDING JUNE 30. (FOREIGN REMITTANCES WERE OFFICIALLY RECORDED AT LESS THAN 600 MILLION DOLLARS IN PFY 1977.) PAKISTAN NOW HAS LITTLE DIFFICULTY PAYING ITS BILLS AND RESERVES, WHICH HAD DECLINED FROM 518 MILLION DOLLARS TO 384 MILLION DOLLARS DURING THE FIRST SEVEN MONTHS OF 1977, ARE REPORTED AT 603 MILLION DOLLARS (3/31/78). IRANIAN DEFERMENT OF 118 MILLION DOLLARS IN PFY 1978 DEBT SERVICE OWED BY PAKISTAN HAS ALSO EASED THE EXTERNAL FINANCIAL SITUATION. REMITTANCES WILL ALSO BE A CRITICAL FACTOR IN PFY 1979. OFFICIALLY THE GOP PROJECTS REMITTANCES OF 1.1 BILLION DOLLARS, BUT A RANGE OF 1.2-1.5 BILLION DOLLARS IS EQUALLY PLAUSIBLE. UNCERTAINTIES REMAIN, HOWEVER, ON THE OVERALL PFY 79 PAYMENTS SITUATION, PARTICULARLY AS TO THE IMPACT OF THE NEW GOVERNMENT'S POLICIES AND EMERGING 5-YEAR PLAN, THE LEVEL OF AGRICULTURAL PRODUCTION, RELATIONS WITH THE IMF, AND THE WILLINGNESS OF IRAN TO CONTINUE DEFERRING LOAN REPAYMENTS. THE PRECARIOUS POLITICAL SITUATION AND ITS IMPACT ON THE ECONOMIC CLIMATE ADDS ANOTHER ELEMENT OF UNCERTAINTY. WE BELIEVE THAT -- BASED ON THE LATEST DATA, INCLUDING THE IBRD ECONOMIC REPORT OF APRIL 7, 1978 -- PAKISTAN SHOULD BE ABLE TO AVOID A SERIOUS PAYMENTS CRISIS WITHOUT A GENERAL RESCHEDULING OF ITS DEBT AT THIS TIME.

THE RECENT BALANCE OF PAYMENTS IMPROVEMENT HAS NOT BEEN ACCOMPANIED BY ANY SIGNIFICANT IMPROVEMENT IN THE  
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UNDERLYING ECONOMIC WEAKNESSES WHICH CHARACTERIZE THE DOMESTIC ECONOMY AND EXPORTS, AND HAVE PRODUCED A DISAPPOINTING PERFORMANCE OVER THE LAST FEW YEARS. WHILE EXTERNAL FACTORS HAVE CONTRIBUTED TO THE POOR PERFORMANCE, MANY OF THE PROBLEMS ARE ATTRIBUTABLE TO THE ECONOMIC POLICIES PURSUED BY THE BHUTTO GOVERNMENT. THE CURRENT GOVERNMENT IS

INCLINED TOWARD ECONOMIC REFORM, BUT LACKS A CLEAR SENSE OF DIRECTION OR MANDATE FOR A COMPREHENSIVE ECONOMIC PROGRAM. CONSEQUENTLY, PAKISTAN'S PUBLIC FINANCES ARE IN A DIFFICULT STATE AND SERIOUS INFLATIONARY PRESSURES ARE GROWING. ALTHOUGH A FUND MISSION WILL SHORTLY RESUME TALKS IN ISLAMABAD ON A NEW STANDBY AGREEMENT, THE IMF RECOGNIZES THAT SEVERAL YEARS OF REFORM WILL BE NECESSARY TO PUT THE ECONOMY ON A STABLE FOOTING, AND HOPES THAT A NEW STANDBY WOULD EVENTUALLY BE FOLLOWED BY GOP AGREEMENT TO NEGOTIATE AN EXTENDED FUND FACILITY. (THE GOP STILL HAS

ACCESS TO APPROXIMATELY \$340 MILLION AT THE IMF.) THE IMF TEAM IS SCHEDULED TO RETURN TO WASHINGTON ON MAY 17.

PAKISTAN'S DEBT SERVICING OBLIGATIONS ARE PROJECTED TO RISE FROM \$451 MILLION IN PFY 78 TO \$533 MILLION IN PFY 79, EQUAL TO ABOUT 17 PERCENT OF ESTIMATED FOREIGN EXCHANGE EARNINGS (INCLUDING A \$1.1 BILLION PROJECTION FOR REMITTANCES). BOTH FIGURES INCLUDE LARGE SERVICE PAYMENTS TO IRAN WHICH BEGAN FALLING DUE IN PFY 78, AND THE TERMINATION (ON 6/30/78) OF THE FOUR-YEAR DEBT RELIEF AGREEMENT NEGOTIATED WITH CONSORTIUM CREDITORS IN 1974. THE \$11 MILLION DUE TO IRAN THIS YEAR HAS NOT BEEN PAID, AND IRAN WILL REPORTEDLY POSTPONE THE PAYMENT. IRAN HAS INDICATED TO THE IBRD ITS WILLINGNESS TO CONSULT WITH OTHER CREDITORS REGARDING THE TERMS OF FUTURE DEBT RELIEF.

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8. PLEASE REPEAT YOUR REPLY TO USOECD PARIS FOR MICHAEL ADLER (U.S. HEAD OF DELEGATION AT MAY 3-5 AID GROUP MEETINGS.) VANCE

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<< END OF DOCUMENT >>

## Message Attributes

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